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Doing Away with the Sovereign: Neoliberalism and the Promotion of Market Discipline in European Economic Governance

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ABSTRACT This article proposes a critical reading of market discipline and its limitations as a mechanism in European economic governance. Consistent with neoliberal beliefs about market-based governance, the Economic and Monetary Union (EMU) is premised on the functioning of the government bond market as a fiscal-policy discipliner. However, the operation of market discipline requires that neither governments nor their private creditors can rely on an authority to bail them out. It therefore precludes the kinds of intervention by Eurozone's supranational institutions witnessed during the euro crisis. In the post-crisis context, efforts to strengthen market discipline continue to be frustrated by the growing reliance of financial institutions on government bond markets as well as the European Central Bank's (ECB) active participation in those markets. Having undermined the credibility of the market as an autonomous and apolitical mechanism of discipline, European economic governance struggles to come to terms with the rise of a supranational 'economic sovereign' in the Eurozone.

Keywords: neoliberalism, market discipline, liberal governmentality, European economic governance, Economic and Monetary Union, sovereign

Introduction

> All the returns and revivals of nineteenth and twentieth century liberal and neo-liberal thought are still a way of posing the problem of the impossibility of the existence of an economic sovereign. (Foucault 2008: 328.)

After decades of strenuous balancing between globalist aspirations for greater market freedoms and domestic sensitivities for protecting industries, workers and welfare states, European economic governance took a decisive neoliberal turn in the 1980s (van Apeldoorn 2009). With the unshackling of capital movements and agreements on the single market and common currency a new governing regime and rationality gradually became entrenched, identified by

Stephen Gill (1995; 1998) as 'disciplinary neoliberalism'. An integral part of this new regime was the market's promotion as a governance mechanism of economic activities at the expense of the state's intervening and planning capacities (Fraser 2003). That was also the case with the Economic and Monetary Union (EMU), the stability of which was designed to rest not only on supranational rule enforcement ensuring that the users of the shared currency would commit to sound economic management, but also on the disciplinary power of the market over national fiscal and economic policies (European Commission 1990).

Any illusions about market-based stability ended with the disastrous market failures of 2007–2008 and the subsequent euro crisis. Nevertheless, as an indication of the market's firm rootedness in Europe's governing discourse and rationality, the principle of market discipline continues to feature in policy debates over governing the Eurozone and reforming its institutional framework. A variety of proposals, from automatic debt restructuring and sovereign concentration charges to 'safe assets' and 'junior sovereign bonds', have seen the light in recent years, all driven by the sometimes explicit but often implicit goal of strengthening the market discipline for member state governments (e.g. Bénassy-Quéré *et al*. 2018). While primarily promoted by the conservative and market-liberal camps of European politics (see Pühringer 2015; EPP 2017), market discipline appeals to policymakers across the political spectrum (Rommerskirchen 2019: 128) and has sometimes found surprising advocates even among the radical left (e.g. Varoufakis 2019).

How should we make sense of the market's persistent appeal in European economic governance despite its evident destabilising tendencies? Over the past decade the economic crisis has given rise to a wide-ranging and multidisciplinary effort to analyse the EMU and its current predicaments in terms of neoliberalism and ordoliberalism (e.g. Schmidt and Thatcher 2014; Streeck 2015; Ryner 2015; Bonefeld 2017; Cardwell and Snaith 2018; Hien and Joerges 2018).[1] The present article subscribes to the underlying argument in this literature that to understand Eurozone's current predicament, it is useful to appreciate how EMU's institutions and policies have been influenced by neoliberalism and to explore its contradictory nature as an intellectual and political project. Conversely, examining the current problems in European economic governance and efforts to deal with them can give us valuable insight into the changes within neoliberalism as a dominant governing regime and rationality. In the hope of contributing to these debates this article focuses on a topic that has hitherto received less attention: the promotion of the government bond market as a mechanism to discipline Eurozone's member states. Accordingly, I argue that the contemporary calls for more market discipline illustrate continuing efforts to harness the market to direct government conduct, which is characteristic of neoliberalism as a governing regime and rationality. Yet these efforts are riddled with difficulties and contradictions.[2]

In this regard I draw attention to what Foucault (2008) and more recently Vogl (2017) have identified as 'the problem of the economic sovereign' in liberal economic governance, meaning the inability of liberal thought to recognise and come to terms with a political power capable of exerting its authority in the realm of the economy. On the basis of this insight my aim is to demonstrate how enforcing market discipline through government bond markets has become increasingly complicated since extensive market interventions in the euro crisis by the EU's supranational state apparatus, and the European Central Bank (ECB) in particular. This is because market discipline as a bilateral relationship between a government and its creditors can function properly only when neither party can rely on an authority to bail them out. The principle of market discipline is thus antithetical to the presence of an interventionist supranational economic sovereign, which is exactly what the Eurozone has witnessed since the beginning of the euro crisis. In one way or another current market-disciplinary reform proposals seek to address this problem by ‘doing away’ with Eurozone’s economic sovereign; yet they struggle to come to terms with the ECB’s deep involvement in government bond markets. Ultimately, the difficulties in producing market discipline in the EMU reflect tensions within disciplinary neoliberalism concerning the exercise of economic sovereignty over the market.

The argument proceeds as follows. The next section briefly outlines how the market has been rationalised in neoliberal thought as a governance mechanism, specifically addressing the problem this raises regarding the (im)possibility of an economic sovereign. It is followed by a critical account of (i) how the conditions of market discipline were affected in Europe by the establishment of the common currency and the simultaneous creation of a supranational economic sovereign; (ii) how the supranational political authorities further undermined these conditions in the euro crisis; (iii) how market discipline has resurfaced on Eurozone’s policy agenda in recent years as a response to the apparent lack of fiscal discipline; and (iv) how the promotion of market discipline is premised on the weakening of the economic sovereign but faces multiple obstacles in Europe’s post-crisis context. The article concludes with a discussion of how strengthening supranational political authority in the euro crisis reflects disciplinary neoliberalism’s ‘authoritarian turn’, undermining the credibility of market discipline as an autonomous and apolitical mechanism of governance in the Eurozone.

The Market as Governance Mechanism of States and the Problem of the Sovereign

> In the context of sovereign bond markets, market discipline may be broadly defined as the influence that market participants exert on governments by pricing different risks of default. [...] In differentiating between interest rates according to the degree of fiscal prudence shown by a country, markets financially ‘punish’ and ‘reward’ governments. Consequently, governments have to take into account these higher financing costs when planning their fiscal policies. Market discipline therefore serves as a deterrent against unsound fiscal policies, and in turn supports fiscal discipline. (González-Páramo 2006.)

The promotion of the market as the principal driving force of economic processes has always distinguished neoliberalism as a governing regime and rationality (Plehwe 2009; Mirowski 2013; Slobodian 2018). Firstly, by theorising the market as a site of verification, capable of revealing the ‘true’ worth of economic pursuits through the price signal, neoliberal thought reaffirms the classical liberal argument that an economy governed by a competitive market achieves what political authority cannot: the coordination of economic activities for the general good of society (Jackson 2012). Declaring the universal benefits of a ‘free’ market, neoliberalism prohibits undue state intervention. Secondly, the operation of the market as a site of verification is not limited to private actors. As investors, producers and consumers react to government activities, the market can just as well determine the conduct of good and legitimate government. Accordingly, in the neoliberal rationality of government, the state is to be supervised by the market rather than *vice versa* (Foucault 2008). Like any other actor in the economy, the state must subject itself to price signals. Market competition thus appears as a principle ‘not only for limiting governmental intervention, but also rationalising government itself’ (Burchell 1991: 23).

In neoliberal reasoning, the international dimension plays an important role in securing the market’s rule over economies. Since democratic governments are always vulnerable to popular pressures to intervene in the market-based allocation of resources (see e.g. Hayek 1986), the market operates as a governance mechanism at its best only in conditions where it can discipline states, limiting their capacity to intervene. To create such conditions it is necessary to promote the liberalisation of markets (Sally 2002; Spieker 2014). Through successful liberalisation any centralised allocation of resources becomes self-defeating as ‘the free flow of goods and investment […] discipline[s] economies away from intervention and planning’ (Slobodian 2018: 102).

Nevertheless, their intellectual attraction to federalism as a form of governance and keen involvement in shaping and running international agencies indicates that the neoliberals never dismissed the importance of political institutions (Slobodian 2018). Positioning itself against simplistic (‘laissez-faire’) conceptions of the market as a natural or spontaneous phenomenon, neoliberal reasoning emphasises the need for a strong political authority to establish the market’s very conditions of existence through laws, rules and regulations (Dale 2019; Stahl 2019). As discussed by Foucault (2008) and Vogl (2017), a dilemma thus appears in liberal thought concerning political authority and its rule over the economy. In political terms there is to be strong, sovereign and preferably supranational institutions to uphold the market-based order. In economic terms, in contrast, it is possible to neither identify nor create an authority with sovereign powers over the market. In liberal governmental reason ‘there is no economic sovereign’ (Foucault 2008: 283).

The failure to recognise an economic sovereign in theory and practice creates constant problems for the neoliberal governing rationality. Foucault (2008) noted that the capacity of the market alone to govern the economy always remained suspect and reoccurring problems in the economy kept bringing back the question of the sovereign—its possibility, necessity and even inevitability. As Vogl (2017: 37) puts it: ‘Although liberalism evacuates the post of the sovereign through its appeal to the market, it fails to get rid of the problem of sovereignty’.

In Europe, the failure of the liberal forms of governance to come to terms with the idea and practice of economic sovereignty has had far-reaching consequences for market discipline. The following section discusses how the EMU gave rise to the problem of the sovereign and how that problem has become acute in the wake of the euro crisis, which saw EU institutions in general and the European Central Bank (ECB) in particular exercising their supranational authority over the market. As a result, while attempts to strengthen the government bond market as a fiscal-disciplinary mechanism are ongoing in the Eurozone, the very possibility and credibility of market discipline is undermined by the continuing need for an interventionist economic sovereign.

The Quest for Market Discipline in European Economic Governance

The Market-disciplinary Eurozone and the Creation of a Supranational Economic Sovereign

As the 1980s accorded new dominance to 'disciplinary neoliberalism' as an international governing regime in Europe (Gill 1995; 1998), the market grew in importance both as a mechanism and rationality of governance. The harmonisation of regulations and the liberalisation of cross-border factor movements promoted European market integration within the framework of which EEC member states now competed for investments. The commitment of governments to low inflation and exchange rate stability in the European Monetary System (EMS) further diminished their capacity to practise policies that ran against market preferences. These developments were given a sense of inevitability by a political, public and academic discourse of 'globalisation' that emphasised how states had become subordinate to the will of the market (Cameron and Palan 2004; Rosenberg 2005). Investors and creditors were expected to discipline political authorities, who in turn were to internalise the demands of this *Marktvolk* (Streeck 2014).

The influence of such market-oriented reasoning was also apparent in the construction of the Eurozone, not least due to the influence of ordoliberalism on the German positions regarding the institutional structure of the EMU (Dyson and Featherstone 1999). EMU's architects saw that when sovereign countries tied themselves into a single currency without simultaneously creating a central fiscal policy authority, there would have to be strong incentives for national governments to enact the convergent economic and fiscal policies on which the currency's stability depended. In addition to binding rules limiting government deficits and debt, the government bond market would have to play a crucial part, exerting the needed 'disciplinary influence' on the member states (Delors 1989: 20). The market's role was subsequently given official status in the Maastricht Treaty. By designating long-term interest rates as one of the euro convergence criteria, the treaty enlisted creditors to evaluate whether or not a member state was fit to join the currency union.

However, even as the EMU was intended to rely on the government bond markets as discipliners of its members, its effects on the strength and nature of that discipline were complex. Whereas the combination of the single market's 'four freedoms' with the EMS had rendered governments highly vulnerable to market speculation and limited their room for fiscal and monetary policy manoeuvre (Dyson and Featherstone 1999; Brunnermeier *et al*. 2016), the creation of a common currency altered the state-market relationship. Even though the governments that adopted the euro became users of a 'foreign' currency in increasingly integrated financial markets, making them even more exposed to lenders' preferences, the EMU would also alter those preferences by removing the currency risk. As a result, joining the Eurozone gave member states some protection from market pressures (also see Rommerskirchen 2019: 122–5).

Moreover, the monetary union established the ECB as a new supranational authority with sovereign powers over the currency. If market discipline is typically understood as a bilateral relationship of interaction between a state and its creditors—and analysed as such by economists and political scientists (e.g. Dewachter and Toffano 2012; McMenamin *et al*. 2015;

Rommerskirchen 2015)—the EMU added a third party to this relationship, inevitably altering its nature and operation. Not only did the ECB shape the context of that interaction by its mere existence, it also had the capacity to intervene in ways that either strengthened or weakened the market's disciplinary hold on governments. How would it use those powers, and would it be able to resist political pressures to protect a member state that came under a speculative attack from creditors? Designing the ECB to be 'the most independent central bank in the world' (Papadia and Ruggiero 1999: 64) and prohibiting it from financing government debt in the Maastricht Treaty represented attempts to shield the ECB from such pressures. Yet it was precisely over concerns of this kind that many neoliberal intellectuals, while advocating European economic integration toward a single liberalised market, were sceptical about the establishment of a currency union (Slobodian 2018).

As it turned out the ECB proved unable to resist the temptation of using its discretionary competences very long. In 2005, after the member states failed to impose sanctions on France and Germany for fiscal rules violations, the ECB announced changes to its policy concerning collateral requirements (see Orphanides 2017). In an attempt to compensate for what it saw as the erosion of the rule-based fiscal discipline with the strengthening of market discipline, the ECB signalled that it would not automatically accept government bonds as collateral when lending to private financial institutions. Instead, the bonds would be eligible only at a minimum credit-rating threshold (A-). While the move had little immediate impact, it demonstrated the ECB's readiness to intervene in the government-creditor relationship. As the crisis unfolded a few years later, adjusting the collateral criteria became a repeatedly used means for the ECB to manage market reactions and discipline member states.

Market Discipline in Crisis

The euro crisis, together with the North Atlantic financial crisis, brought the 'emergency powers' of Eurozone's supranational authorities into plain view (Vogl 2017: 9). The European Council and the EU Commission responded to the escalating market dysfunction with bailouts of commercial banks and governments, establishing the European Stability Mechanism (ESM) as a new Eurozone authority to arrange these bailouts. The ECB simultaneously engaged in a series of market interventions, including secondary government bond markets under the Securities Market Programme (SMP). In 2012, following Mario Draghi's pledge that the ECB would do 'whatever it takes' to preserve the euro, the central bank eased creditors' uncertainty by announcing the Outright Monetary Transactions Programme (OMT) (Bastasin 2015: 394–5). The OMT committed the ECB to unlimited support of any Eurozone government that applied for financial assistance.

Protecting private investors from losses once they endangered the survival of the euro, the combined effect of these measures was to undermine market discipline in both practice and principle. First, EU institutions addressed widespread uncertainty in the financial sector by creating mechanisms that were to convince creditors that member states were not at risk of insolvency. They thus signalled that the debt of even the most distressed governments ought to be regarded as a 'safe' investment. The status of being safe, however, significantly weakened market discipline, the functioning of which requires that creditors face at least a potential risk when lending to a government. Second, Eurozone's market discipline had been based on rules and conventions intended to guarantee that the ECB and the Council as the bloc's supranational political authorities would not intervene in the creditor-government relationship; however, this principle was repeatedly violated during the crisis because of the necessity of protecting vulnerable governments from speculative attacks. Rather than subjecting themselves to market signals, the authorities imposed their sovereign powers over the market.

It should be noted that while the underlying conditions of and assumptions about market discipline were seriously undermined by the imposition of supranational political authority over creditors, the euro crisis did little to weaken disciplinary neoliberalism as a dominant governing regime. Instead of relying on the market as an autonomous disciplining mechanism, European authorities now enforced fiscal discipline through other institutions, including Memorandums of Understanding, the Troika and the European Semester, which brought national budgets under the Commission's surveillance and the Council's coordination. Moreover, the ECB repeatedly took advantage of its control over the government bond market to either directly or indirectly pressure governments into greater austerity and structural reforms (Bastasin 2015; Woodruff 2016). Such a blatant use of the market as a policy tool to subject governments to the will of the central bank rendered the ECB's power over the bloc increasingly apparent—and politicised (Högenauer 2019; Tortola 2019).

These new directions, sometimes claimed to be representing an 'authoritarian' turn in Europe's neoliberal economic governance (e.g. Streeck 2015; Bonefeld 2017; Wilkinson 2019; see also Schneider and Sandbeck 2018), can be interpreted as an implicit acknowledgment by Eurozone's governing elites that fiscal discipline had failed to result 'naturally' from the operation of market mechanisms and now required stronger legal constraints and outright political coercion. Indeed, one of the principal narratives that emerged about the crisis pointed to the market's failure as a disciplinary mechanism (Rommerskirchen 2015). The argument was granted formal recognition by EU institutions in 2015. In an 'analytical note' that served as the basis for the revamped Eurozone reform agenda, EU leaders identified the euro crisis as 'the crisis of markets in terms of their capacity to price country risk correctly' (Juncker 2015: 4).

Resurgence of Market Discipline

Despite its apparent failure as Eurozone's governance mechanism, the market's role in ensuring fiscal discipline was never entirely discounted. It still had powerful advocates around Europe, particularly in the bloc's export-oriented countries led by Germany (Hacker and Koch 2017). Generally reluctant to bail out insolvent member states and often sceptical about the ECB's rescue measures, many politicians and economists in these countries warned about the long-term consequences of such policies in terms of moral hazard and loss of discipline (e.g. Schäuble 2011; Sinn 2014). Their reasoning was that until political integration reached a point where authority over fiscal policies was effectively delegated to supranational institutions, the market would need to serve as a disciplinary mechanism in Eurozone's governance.

How was such a conviction possible in the post-crisis context, in which many expert and even official accounts criticised financial markets for their destabilising effects? Such accounts, after all, not only questioned the market's feasibility as a governing mechanism, but also suggested a more fundamental rethink of the policies of liberalising capital flows in the absence of supranational fiscal capacities to mitigate the unwanted effects of those flows (e.g. Mitchell and Fazi 2017). The answer arguably lies in a neoliberal governing rationality that rejected the post-crisis scepticism of the market and focused instead on the deficiencies in its institutional operating framework.

According to this line of reasoning, the failure of private creditors to discipline Eurozone governments prior to the crisis followed from their appreciation of euro-denominated bonds as essentially risk-free investments. However, instead of demonstrating the market's incapacity to price risks correctly, the creditors' lenience pointed to deficiencies in European regulations that created inappropriate incentives for market agents, as well as to the lack of credibility of EMU's no-bailout clause (e.g. Mayer 2012; Sinn 2014). Even if it had been ratified in the treaties, creditors assumed that, come the crisis, the prohibition would not be heeded. Indeed, with the benefit of hindsight, it was now possible to argue that the market had anticipated the bailouts all along (Feld *et al*. 2016). Consequently, the correct solution for the Eurozone was not to abandon the market as a governance mechanism but to improve the EMU rules and regulations so that creditors would no longer be tempted to second-guess European governments and institutions. Once the threat of losses was truly appreciated by creditors, the market would produce proper signals for member states and help prevent a build-up of unsustainable deficits and debt.

The so-called Deauville proposal represented an early attempt to (re)introduce market discipline into crisis management and prevention. Agreed in bilateral talks between Chancellor Merkel and President Sarkozy in October 2010, it proposed that private creditors would face losses in any future bailout through the ESM (Bastasin 2015: 463). However, as the vocal opponents of the deal, including ECB's Jean Claude Trichet, claimed that the threat of automatic 'haircuts' was spooking creditors and intensifying the debt crisis, Merkel backed off and the idea of automatic private sector involvement was eventually watered down and effectively abandoned (Mody 2018: 275–9). Still, when the EU and IMF extended a loan to the Cypriot government in 2013 to deal with the country's banking crisis, the bailout was accompanied by a levy on investors and large depositors (Bastasin 2015: 435–6). These episodes demonstrated that, far from sentencing market-based governance into oblivion, the euro crisis provoked a renewed contestation about it.

As the 2010s progressed the case for reinvigorating market discipline gradually gained traction. For one, it became increasingly apparent that the capacity of the revamped fiscal coordination and rule framework to sanction governments was limited (see Rommerskirchen 2019). Noting that the member states continued to violate deficit rules and miss debt reduction targets without facing penalties, the proponents of fiscal discipline could not but conclude that the Commission-led monitoring and coordination of fiscal policies was too weak to lift the Eurozone out of its debt predicament. As a leading German ordoliberal Hans-Werner Sinn (2014: 6) reasoned: 'While soft budget constraints help in the short run and reduce the probability of a collapse of the system, they remove the incentives to tackle the structural reforms that would cure the disease'.

Such regrets were compounded after the ECB launched an aggressive asset purchase program in 2015 to prevent a deflationary spiral. The side effect of ECB's quantitative easing was to limit the divergence of member states' borrowing costs and could thus be seen as further alleviating the pressure on governments to implement larger spending cuts and reforms to improve price competitiveness. The demand grew for new means to incentivise highly indebted countries 'to put their houses in order'. Instead of tougher rules, surveillance and sanctions the focus now turned to reforms that would strengthen the disciplinary effects of markets over Eurozone governments. Accordingly, a variety of proposals from automatic debt restructuring and 'sovereign concentration charges' to 'sovereign bond-backed securities' (SBBS) and 'junior sovereign bonds' have seen the light in recent years, all driven by the sometimes explicit but often implicit goal of tightening the borrowing conditions of highly indebted member states (e.g. Bénassy-Quéré *et al*. 2018; Deslandes *et al*. 2018; Eidam and Heinemann 2019; Fuest and Heinemann 2017; Véron 2017).

The Problem of the Sovereign

The Eurozone's institutional arrangements combined with long-term developments in the financial markets place various obstacles to strengthening the market's disciplinary grip over member states. For one, government bonds have come to serve an increasingly central function as collateral when banks and other financial institutions lend to each other in the wholesale financial markets (Gabor and Ban 2016). This functional importance of bonds means that there is a constant market demand for public debt, which tends to undermine the fiscal-disciplinary pressures that creditors impose on governments outside the circumstances of an acute financial crisis.

To fulfil their role as collateral, government bonds must be perceived as highly reliable, or 'safe', assets. Indeed, during the euro crisis EU authorities protected the status of bonds as safe assets to secure the operation of interbank lending. For its part, by continuing to accept bonds as collateral and using them to conduct monetary policy (Braun and Gabor 2019), the ECB also contributes to making them safe. All this runs counter to the very logic of market discipline based on the principle of creditor risk. Therefore, all current reform proposals intended to strengthen market discipline seek to address this problem in one way or another. For instance, to compensate for the establishment of the ESM as a permanent government bailout mechanism, proposals on automatic debt restructuring aim to impose losses on investors whenever a member state applies to an ESM programme (Bénassy-Quéré *et al*. 2018; Eidam and Heinemann 2019). The regulatory initiative on SBBS, for its part, would allow the private sector to introduce a new class of bond-backed securities that would operate as 'safe assets' while demoting the debt issued by highly-indebted countries to a lower status (Deslandes *et al*. 2018).

It thus appears that the current market-disciplinary reforms are meant to reinforce investor uncertainty regarding government bonds without completely destroying the arrangements put in place to gain that certainty. The difficulty of attending to the needs of financial markets while enforcing fiscal discipline thus tends to lead to rather confounding reasoning about government bonds that must simultaneously be seen both as safe and unsafe, or in the words of ECB's Benoit Cœuré (2016), as safe but not 'too safe':

> We need public debt to be safe in the euro area. […] Yet at the same time, we also do not want public debt to be perceived as *too safe*, since that would eliminate the

> role of market discipline in delivering sustainable policies and create a false belief that governments cannot fail. (Cœuré 2016, original emphasis.)

Promoting uncertainty and ambiguity about the status of government bonds is certainly an essential precondition for market discipline; yet its main obstacle in the post-crisis context may well be the ECB itself. For even as the Maastricht Treaty's provisions were meant to limit its scope of discretion, they failed to prevent the ECB from exercising its sovereign powers over the currency to keep governments solvent and fulfil the market's acute need for liquidity.

The rationale for strengthening market discipline rests on the conviction that subjecting governments to the threat of an investor run will lead to a more stable currency union: 'the risk of insolvency […] is the stabilising principle that holds everything together' (Sinn 2014: 358). According to this logic stability is finally achieved when all economic actors are convinced that there is no one to rescue them if they run into trouble. This is why members of the German Council of Economic Experts reason that the ECB's current role as the ultimate guarantor of government debt 'can hardly be considered a sustainable situation' and so the goal must be to 'relieve the ECB of its role as a crisis manager' (Feld *et al*. 2016: 53). Against the growing dependence of the Eurozone economy on the ECB they strive to limit its powers and responsibilities. The ultimate precondition of market discipline is to maintain the euro as a 'sovereign-less currency' (Bénassy-Quéré 2016)—or at least a general perception of it as such.

In this sense the current search for stronger market discipline in the Eurozone has clear affinities with the neoliberal project that seeks to circumscribe, restrict and even 'annihilate' the sovereign both in governing theory and practice (Dean 2007: 186). The neoliberal argument posits that for the market to work as governing mechanism no actor can be clearly identified as an economic sovereign or lender of last resort capable of standing above and disciplining the market. And if there is such a sovereign, as in the case of a supranational monetary authority, all market participants including governments must live in constant uncertainty about its willingness to rescue them; to act *as if* there is no sovereign. As Dean (2007: 191) argues, the neoliberal rationality can make sense of sovereign power only in terms of a state of exception, as a temporary suspension of law and the normal running of things. There is no place for such political authority in a state of normalcy, which is to be governed by the market.

The problem European economic governance now faces is whether a vision of a sovereign-less currency is credible or viable any longer in Eurozone's post-crisis context. In its business of saving the euro the ECB not only protected member states from market speculation but also enhanced their fiscal room for manoeuvre, becoming deeply involved in government bond markets in ways that are all difficult to undo, at least in the short term. As a result the ECB has effectively turned into Eurozone's 'government of last resort' (Vogl 2017: 121), inevitably shaping the very nature of market discipline as a governance mechanism. From a social relationship that was based on the bilateral interaction between a government and its creditors market discipline has increasingly turned into a device administered by the ECB as the overseer of both governments and the market. To erase the supranational economic sovereign from the equation it would have to be disassociated once and for all from the government debt market, effecting a transformational shift in how financial markets operate in today's 'central bank-led capitalism' (Bowman *et al*. 2013).

Conclusion

For the neoliberal rationality the euro crisis was never a reason to reconsider the viability of the market as a principle and practice of governance in the Eurozone. Far from invalidating the market as a governance mechanism its flaws provide the government its *raison d'être*: one of neoliberalism's central insights, after all, is that the functioning of the market can always be improved by reforming its operational framework (Jackson 2012; Woodruff 2016; Stahl 2019). The question is not how to insulate economic policy as much as possible from market pressures. It is rather how to reform the institutions and rules in a way that improves the mutual responsiveness of governments and other market agents to secure prudence, predictability and stability. Crises expose the deficiencies in the framework and help identify the ways in which it must be tweaked.

The problem that crises pose for the neoliberal governing rationality, therefore, is not so much the dysfunction of markets but the need for political authorities to tighten their grip on the economy and thus to demonstrate their power. For while the market's disciplinary force was undermined in the euro crisis, political and bureaucratic discipline took over. National economies were steered toward the path of austerity and neoliberal reforms both gently, through the EU's unique combination of administrative and peer pressure, and forcefully, through the notorious Memorandums of Understanding overseen by the Troika. While typically relying on an elite consensus over the necessity of such measures, Europe's political and bureaucratic apparatus has not shied away from stamping its authority whenever an elected government put up resistance, as in the cases of Greece in 2015 and Italy in 2018. At crucial stages the ECB also stepped in, exploiting its stranglehold over Eurozone banks and governments to persuade the latter to endorse its policy prescriptions (Fontan 2018; Woodruff 2016).

That such disciplinary events have become a recurrent feature of Europe's economic governance follows logically from attempts to tighten the administrative and political control over member states at a time of deep economic trouble and social dislocation. To paraphrase Gill (1995: 411), they represent the 'particular instances of disciplinary power' that complement the more structural forms of power in neoliberalism. Nevertheless, even as this regime as a whole has shown few signs of weakening, its need to resort to threats, dictates and outright coercion has made the power Eurozone's supranational forms of political authority exert over member states increasingly apparent (Streeck 2015; Bonefeld 2017). The political backlash in the form of growing economic nationalism in its left and right versions indicates that the exposure of disciplinary neoliberalism's 'authoritarian' features threatens its legitimacy everywhere in Europe.

Perhaps more worryingly for the system's neoliberal architects, the demonstrations of force risk turning the European institutions of economic governance into targets of growing societal demands and popular calls for action. This can be witnessed both in the drive for new supranational fiscal competences to address Eurozone's lack of macroeconomic stabilisation capacities and in the public demands directed at the ECB. Indeed, even as it is shielded by statutes from any democratic accountability, the ECB is now subject to formidable political pressures to maintain easy credit conditions for member states, to protect systemically important financial institutions from insolvency, and even to address the continent's needs for employment and investments for a sustainable future (e.g. Stiglitz 2016; Moghadam 2018; Skolimowski 2019).

Arguably then, the flipside of liberal economic governance having to resort to increasingly authoritarian forms of rule is the simultaneous loss of its depoliticised nature and appearance (Schmidt 2019; Tortola 2019). The current push by Europe's ordoliberal and market-liberal policymakers for more market discipline can be viewed as an attempt to counter these tendencies. For them, strengthening the role of the market in directing national policies at the expense of EMU's rule-based policy coordination promises to *depoliticise* economic governance and make it more palatable to governments and electorates.

Charlotte Rommerskirchen (2019) has recently argued that resorting to the market as a disciplinary mechanism is a logical outcome of the member states' unwillingness to commit to binding rule-based fiscal coordination. Market discipline can certainly be regarded as a sort of default mode in Eurozone governance, something to fall back on after failures to establish strong political and bureaucratic governance processes. Such an argument, however, overlooks the extent to which the very production of market discipline has become increasingly difficult in the Eurozone because of the growing reliance of financial markets on government bonds as 'safe' assets. And even if regulatory and institutional reforms could succeed in raising the debt-servicing costs of (weaker) member states, the expansion of the ECB's competences and policy tools and its deep involvement in government bond markets leave little doubt that the market's disciplinary function has become heavily dependent on the central bank's decisions. In the post-crisis condition characterised by the growing responsibilities of central banks in the functioning of financial markets (Bowman *et al*. 2013), Eurozone's economic sovereign cannot be forced back into oblivion easily. And when it can no longer be convincingly characterised as a relationship between a state and its creditors, market discipline has lost much of its credibility as an apolitical principle and practice of governance.

The intellectual and political difficulties of coming to terms with the sovereign in European economic governance manifest themselves in the current political impasse over reforming the EMU. Since the euro crisis the neoliberal rationality of market-based governance has found itself increasingly at odds with Eurozone's institutional reality, leading to an ideological disorientation and political conflict over the way forward (Brunnermeier *et al*. 2016). Fiscal federalism is presented as a solution by those who acknowledge the limits of the market and emphasise its destabilising effects (e.g. De Grauwe 2013; Berger *et al*. 2019). Not before sufficient supranational capacities for macroeconomic stabilisation are in place can the ECB withdraw its support for the member states without endangering the survival of the currency union. According to this view a Eurozone fiscal sovereign is therefore a precondition for imposing more market discipline on member states.

Moves towards a fiscal union, however, continue to be steadfastly opposed by those whose greatest fear is an economic sovereign that becomes subject to political pressures and threatens to destroy the operation of the market as a governing mechanism. Accordingly, current calls to strengthen market discipline represent efforts to thwart Eurozone's seemingly inexorable slide into more centralised and blatantly political forms of rule. In trying to prevent the creation of new supranational authorities capable of responding to democratic demands, market-disciplinary reformers cling to the neoliberal illusion of a sovereign-less economy.

Notes

[1] As political philosophies, neoliberalism and ordoliberalism both have their roots in the interwar period and, while emphasising different notions at times, they have many overlaps—including the affirmation of the benefits of the market mechanism in governing societies (e.g. Plehwe 2009; Slobodian 2018; Dale 2019). In the EU/EMU context, policies of liberalisation, privatisation and austerity have often been analysed under the rubric of neoliberalism (e.g. van Apeldoorn 2009; Schmidt and Thatcher 2014), whereas the notion of ordoliberalism has inspired analyses of EMU's fiscal rules, the model of the ECB and the influence of Germany's economic model and stability culture on euro crisis policies and debates (e.g. Ryner 2015; Bonefeld 2017; Hien and Joerges 2018). In this article I favour the notion of 'disciplinary neoliberalism' coined by Gill (1995; 1998) to indicate that European economic governance is not isolated from broader international governing regimes and rationalities.

[2] This article focuses on government bond markets as an intended mechanism of market discipline and is thus not meant as an exhaustive account of the ways investors may have an impact on Eurozone governments' economic policy or restrict their room for manoeuvre. It should also be noted that the specific idea examined here of 'market discipline' as a governing mechanism of states is related to but differs from the way the term is sometimes used to describe a more general principle behind well-functioning competitive markets; a demand that all market agents conduct business responsibly, prudently and transparently.

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